CBAO

Community Bankers Association of Ohio
Increasing the Value of Independent Financial Institutions Since 1974

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April 11, 2006

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Ave, NW
Washington, DC 20551

Re: Docket No. OP-1248

Dear Jennifer,

The Community Bankers Association of Ohio (CBAO) exclusively represents Community Banks and Thrifts in Ohio who serve their communities through 1,450 locations and 18,000 employees, with more than $61 Billion in assets, $46 Billion in insured deposits and over $44 Billion in net loans.

The CBAO would like to comment on the "Proposed Commercial Real Estate Lending Guidance" (CRE) currently being considered. According to the proposal, banks with 100% or more of capital in construction, land development and land loans, or 300% or more of capital in multifamily and non-farm nonresidential property loans, and construction, land development and land loans would be affected. (Owner occupied loans are excluded.)

We believe that the proposed guidance is unnecessary, is too restrictive and unfairly burdensome for community banks. We ask that you not go forward with the proposed guidance for the following reasons.

- Regulators should address CRE management problems bank by bank, not by broad brush across the banking industry.

- The proposal could force a disproportionate number of community banks with concentrations in commercial real estate lending to tighten risk management practices and potentially hold more capital.
- Most community banks are underwriting their CRE loans conservatively. They carefully inspect collateral and monitor loan performance and the borrower's financial condition. Community bankers lend in their communities and are close

to their customers. Thus they are positioned well to know the condition of their local economy and their borrowers.

- The proposal does not recognize that different segments of the CRE markets have different levels of risk.

- Regulators should consider the bank's allowance for loan losses, charge-off history and current capital levels along with risk management practices.

- Most community banks lend monies on small multifamily commercial projects that pose limited risk to the institution.

- Community banks have generally increased staff and risk management practices and capital levels since previous downturns in commercial real estate lending and are now better equipped to handle future downturns.

- There already exists a body of real estate lending standards, regulations and guidelines. Examiners have the necessary tools to enforce them and address unsafe and unsound practices.

- The proposed threshold limits of CRE loans to capital are too restrictive and do not take into account the lending and risk management practices of individual institutions.

- Community banks already hold capital at levels above minimum standards and should not need to raise additional capital because their CRE loans exceed the proposed thresholds.

- The proposed guidance is unfairly burdensome for community banks that do not have opportunities to raise capital or diversify their portfolio to the extent that larger regional banks can. The CRE portfolios of many community banks have grown in response to the needs of their community.

- The proposal's recommendations regarding management information system reports will be particularly costly and burdensome to community banks; the costs will most likely out weigh the benefits for smaller banks.

We urge you not to go forward with the proposed thresholds as they send a message to community bankers that they should arbitrarily cut back their CRE lending thus limiting their ability to generate income and capital and loose quality loans to larger competitors.

Please direct your comments and questions to my attention.

Sincerely,

Robert L. Palmer
President and Chief Executive Officer